

**EAST KENTUCKY UTILITIES, INC.**

**PO BOX 408 PRESTONSBURG KY 41653**

**606-886-2431 fax 606-889-9196**

1 / 14 / 2005

Ms. Elizabeth O'Donnell  
Executive Director  
KY Public Service Commission  
P.O. BOX 615  
FRANKFORT KY 40602

Case 2005-00032

RECEIVED  
JAN 18 2005  
PUBLIC SERVICE  
COMMISSION

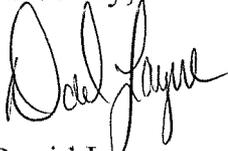
RE: The Application of East Kentucky Utilities, Inc. for Approval of the  
Proposed Increase in Rates

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of East Kentucky  
Utilities, Inc. application for a general rate increase.

Should you have any questions concerning the enclosed, please contact me.

Sincerely,



David Layne  
Gen. Manager

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**RECEIVED**  
JAN 18 2005  
PUBLIC SERVICE  
COMMISSION

**IN THE MATTER OF:**

**THE APPLICATION OF THE EAST KENTUCKY  
UTILITIES, INC FOR APPROVAL OF THE  
PROPOSED INCREASE IN RATES**

)  
) **CASE NO.**  
) ~~2004-00317~~  
)  
2005-00032

**APPLICATION AND NOTICE**

East Kentucky Utilities, Inc. ("East Kentucky"), pursuant to KRS 278.020, KRS 278.190 and KRS 278.300, petitions the Commission for approval of a proposed increase in its rates. In support of its application, East Kentucky respectfully states as follows:

1. East Kentucky is a non-profit corporation established to lease and operate the natural gas distribution system owned by Floyd County, organized under KRS 273.161 and KRS 273.390. East Kentucky's mailing address is P.O. Box 408, Prestonsburg, Kentucky 41653.
2. East Kentucky is engaged in the distribution and sale of natural gas to approximately 1,035 customers in Floyd County, Kentucky.
3. The proposed increase in its rates is necessary for East Kentucky to meet continuing demand for adequate service. It has been approximately 6 years since East Kentucky has increased its base rates. In those 6 years, there have been increases in operating costs. The increase in the cost of service has not been offset by East Kentucky's system growth. An increase in its rates is essential for East Kentucky to maintain a reasonable level of service and to cover its debt service.

4. As authorized by KRS 278.192(1), and for the purpose of justifying the reasonableness of the proposed general increase in rates, East Kentucky has utilized an historical test period consisting of the twelve (12) consecutive calendar months ending June 30, 2004.

5. East Kentucky's annual reports, including the annual report for 2004, are on file with the Public Service Commission as required by 807 KAR 5:006, Section 3(1).

6. East Kentucky hereby gives notice to the Public Service Commission of the adjustment to its rates as set forth in Exhibit No. 2 in the filing requirements. The proposed rates will result in an increase in annual operating revenues of \$153,110 an increase of approximately 18.9 percent over normalized revenues of \$809,577.

7. The proposed tariff is in Exhibit No. 2. It is shown in comparative form on the existing tariff, by cross-outs, in Exhibit No. 3.

8. East Kentucky will comply with 807 KAR 5:011, Section 9, (2) and 807 KAR 5:001, Section 10, (3) and (4), by delivering to newspapers of general circulation in its service area a copy of the Notice identified as Exhibit 10 in the filing requirements, for publishing once a week for three consecutive weeks in a prominent manner, the first of said publications will be made within (7) days of the date the Application is filed with the Commission.

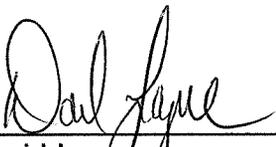
9. As required by 807 KAR 5:001, Section 10, (4), (f), East Kentucky will post a copy of its Customer Notice (Exhibit No. 10) at its place of business on the date the Application is filed with the Commission, and it will remain posted until the Public Service Commission has determined East Kentucky's rates.

10. The lists of the documents filed in support of East Kentucky's application for approval of the proposed adjustment of rates or the explanations for their absence is contained in the Filing Requirement Index.

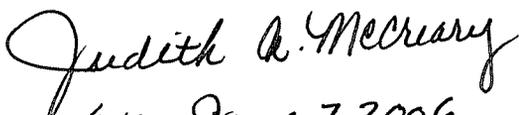
WHEREFORE, the Applicant, East Kentucky, requests the Public Service Commission of Kentucky to find that the proposed rates are fair, just, and reasonable pursuant to KRS 278.030(1).

Dated at Prestonsburg, Kentucky this 01/14/05, 2005

Respectfully submitted,  
EAST KENTUCKY UTILITIES, INC.

By   
David Layne  
East Kentucky Utilities, Inc.  
P.O. Box 408  
Prestonsburg, KY 41653  
(606) 886-2431

Subscribed and sworn to before me by David Layne this 14 day of January, 2005.

NOTARY PUBLIC, KY STATE AT LARGE  
  
Exp - June 7, 2006

## Filing Requirement Index Historical Test Period Rate Case

| Filing Requirements                        | Filing Requirement Description   | Location or Absence Reason                          |
|--|--|---|
| 807 KAR 5:001<br>Section 8(1)              | Full name and P. O. address of applicant and reference to the particular provision of law requiring PSC approval.  | Application at 1.                                   |
| 807 KAR 5:001<br>Section 8(2)              | The original and 10 copies of application plus copy for anyone named as interested party.  | The correct number of applications has been filed.  |
| 807 KAR 5:001<br>Section 10(1)(b)(1)       | Reason adjustment is required.   | Application at 2 and 3.                             |
| 807 KAR 5:001<br>Section 10(1)(b)(2)       | Statement that utility's annual reports, including the most recent calendar year, are filed with PSC. 807 KAR 5:006, Section 3(1)  | Application at 5.                                   |
| 807 KAR 5:001<br>Section 10(1)(b)(3) & (5) | If utility is incorporated, certified copy of articles of incorporation and amendments or out of state documents of similar import. If they have already been filed with PSC refer to the style and case number of the prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed. | Exhibit 1.  |
| 807 KAR 5:001<br>Section 10(1)(b)(4) & (5) | If applicant is limited partnership, certified copy of limited partnership agreement. If agreement filed with PSC refer to style and case number of prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed.  | N/A – East Kentucky is not a limited partnership.   |
| 807 KAR 5:001<br>Section 10(1)(b)(6)       | Certified copy of certificate of assumed name required by KRS 365.015 or statement that certificate not necessary.   | N/A – East Kentucky has never used an assumed name. |
| 807 KAR 5:001<br>Section 10(1)(b)(7)       | Proposed tariff in form complying with 807 KAR 5:011 effective not less than 30 days from date application filed.  | Exhibit 2.  |
| 807 KAR 5:001<br>Section 10(1)(b)(8)       | Proposed tariff changes shown by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff.  | Exhibit 3.  |

**Filing Requirement Index  
Historical Test Period Rate Case**

| Filing Requirements                   | Filing Requirement Description  | Location or Absence Reason   |
|---------------------------------------|---|--|
| 807 KAR 5:001 Section 10(1)(b)(9)     | Statement that notice given, see subsections (3) and (4) of 807 KAR 5:001, Section 10 with copy.  | Application at 4. Customer Notice Exhibit 10.  |
| 807 KAR 5:001 Section 10(2)           | If gross annual revenues exceed \$1,000,000, written notice of intent filed at least 4 weeks prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period.  | N/A – East Kentucky’s gross annual revenues did not exceed \$1,000,000.  |
| 807 KAR 5:001 Section 10 (6)(a)       | Complete description and quantified explanation for proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment.  | Exhibit 5.   |
| 807 KAR 5:001 Section 10 (6)(b) & (c) | If gross annual revenues exceed \$1,000,000, prepared testimony of each witness who will support the application. If less than \$1,000,000, prepared testimony of each witness who will support application or statement that utility does not plan to submit prepared testimony. | Commission Staff assisted with East Kentucky in preparing its application and therefore, prepared testimony will not be submitted. |
| 807 KAR 5:001 Section 10 (6)(d)       | Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease.   | Application at 6.  |
| 807 KAR 5:001 Section 10 (6)(e)       | If electric, gas, water or sewer utility effect upon the average bill for each customer classification to which change will apply.  | Exhibit 7.   |
| 807 KAR 5:001 Section 10 (6)(f)       | If local exchange company, effect upon the average bill for 807 each customer class for change in basic local service.  | N/A – East Kentucky is a gas distribution company.   |
| 807 KAR 5:001 Section 10 (6)(g)       | Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class.  | Exhibit 6.   |

**Filing Requirement Index  
Historical Test Period Rate Case**

| <b>Filing Requirements</b>       | <b>Filing Requirement Description</b>   | <b>Location or Absence Reason</b>  |
|----------------------------------|---|--|
| 807 KAR 5:001 Section 10 (6)(h)  | Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.  | East Kentucky's revenue requirement is based on debt service coverage. Exhibit 8.  |
| 807 KAR 5:001 Section 10 (6)(i)  | Reconciliation of rate base and capital used to determine revenue requirements.   | N/A – Revenue Requirement reflects Debt Service.   |
| 807 KAR 5:001 Section 10 (6)(j): | Current chart of accounts if more detailed than the Uniform System of Accounts.   | Exhibit 9.   |
| 807 KAR 5:001 Section 10 (6)(k)  | Independent auditor's annual opinion report, with any written communication from auditor, which indicates existence of material weakness in internal controls.  | Exhibit 11.  |
| 807 KAR 5:001 Section 10 (6)(l): | The most recent FERC or FCC audit reports.  | N/A – East Kentucky is not regulated by FERC or FCC.   |
| 807 KAR 5:001 Section 10 (6)m    | The most recent FERC Form 1 (electric), FERC Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone).  | N/A – East Kentucky is not regulated by FERC or FCC.   |
| 807 KAR 5:001 Section 10 (6)(n)  | Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case refer to that case's number and style.       | East Kentucky has not had a depreciation study performed and requests a deviation from this requirement. The depreciation rates have not changed since the last rate case. |
| 807 KAR 5:001 Section 10 (6)(o)  | List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program. | Excel<br>Word  |

**Filing Requirement Index  
Historical Test Period Rate Case**

| <b>Filing Requirements</b>      | <b>Filing Requirement Description</b>   | <b>Location or Absence Reason</b>   |
|---------------------------------|---|---|
| 807 KAR 5:001 Section 10 (6)(p) | Prospectuses of most recent stock or bond offerings.  | N/A – East Kentucky is a non-profit corporation.                            |
| 807 KAR 5:001 Section 10 (6)(q) | Annual report to shareholders, or members, and statistical supplements covering 2 years prior to application filing date.   | N/A – East Kentucky is a non-profit corporation                             |
| 807 KAR 5:001 Section 10 (6)(r) | Monthly managerial reports providing financial results for 12 months in test period.  | N/A – East Kentucky does not generate monthly managerial financial reports. |
| 807 KAR 5:001 Section 10 (6)(s) | SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available.  | N/A – East Kentucky is not regulated by the SEC.                            |
| 807 KAR 5:001 Section 10 (6)(t) | <p>If utility had any amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years, file:</p> <ol style="list-style-type: none"> <li>Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each charge allocation or payment;</li> <li>Explanation of how allocator for the test period was determined; and</li> <li>All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable;</li> </ol> | N/A – There are no affiliate allocations.                                   |

**Filing Requirement Index  
Historical Test Period Rate Case**

| Filing Requirements             | Filing Requirement Description   | Location or Absence Reason   |
|---------------------------------|--|--|
| 807 KAR 5:001 Section 10 (6)(u) | If gas, electric or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period.   | N/A – East Kentucky’s annual gross revenues do not exceed \$5,000,000. |
| 807 KAR 5:001 Section 10 (6)(v) | Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file:<br><br>1. Jurisdictional separations study consistent with Part 36 of the FCC’s rules and regulations; and<br><br>2. Service specific cost studies to support pricing of all services that generate annual revenue greater than \$1,000,000, except local exchange access:<br><br>(a) Based on current and reliable data from a single time period; and<br><br>(b) Using generally recognized fully allocated, embedded, or incremental cost principles. | N/A – East Kentucky is a gas distribution company.                     |
| 807 KAR 5:001 Section 10 (7)(a) | Detailed income statement and balance sheet reflecting impact of all proposed adjustments  | Exhibit 4.   |
| 807 KAR 5:001 Section 10 (7)(b) | Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions.   | N/A – East Kentucky has not proposed any construction.                 |

**Filing Requirement Index  
Historical Test Period Rate Case**

| Filing Requirements                | Filing Requirement Description   | Location or Absence Reason                             |
|------------------------------------|--|--|
| 807 KAR 5:001<br>Section 10 (7)(c) | <p>For each proposed pro forma adjustment reflecting plant additions the following information:</p> <ol style="list-style-type: none"> <li>1. Starting date of the construction of each major component of plant;</li> <li>2. Proposed in-service date;</li> <li>3. Total estimated cost of construction at completion;</li> <li>4. Amount contained in construction work in progress at end of test period;</li> <li>5. Complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;</li> <li>6. Original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;</li> <li>7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and</li> <li>8. Impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;</li> </ol> | N/A – East Kentucky has not proposed any construction. |

**Filing Requirement Index  
Historical Test Period Rate Case**

| Filing Requirements             | Filing Requirement Description  | Location or Absence Reason   |
|---------------------------------|---|--|
| 807 KAR 5:001 Section 10 (7)(e) | Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers. | N/A – East Kentucky is not proposing any adjustments to recognize any increase in the number of customers. |

**Exhibit Index**

| <b><u>Exhibit Title</u></b>                       | <b><u>Exhibit Number</u></b> |
|---|------------------------------|
| Articles of Incorporation                         | 1                            |
| Proposed Tariff                                   | 2                            |
| Comparison – Proposed & Current Tariffs           | 3                            |
| Pro Forma Financial Statements                    | 4                            |
| Pro Forma Adjustment Descriptions                 | 5                            |
| Billing Analysis                                  | 6                            |
| Impact on Average Bill by Customer Classification | 7                            |
| Revenue Requirement Determination                 | 8                            |
| Current Chart of Accounts                         | 9                            |
| Customer Notification                             | 10                           |
| 2003 Audited Financial Statements                 | 11                           |

**EXHIBIT NO. 1**  
**ARTICLES OF INCORPORATION**

JUN 19 1979

*Dwight R. Davis*  
SECRETARY OF STATE

ARTICLES OF INCORPORATION

The undersigned hereby forms a non-profit corporation under the laws of the Commonwealth of Kentucky, and to accomplish such purpose, does hereby adopt the following articles of incorporation.

ARTICLE I

The name of the corporation to be East Kentucky Utilities, Inc. with its principal offices at 3 South Arnold Avenue, Prestonsburg, Kentucky 41653.

ARTICLE II

The corporation shall have no capital, common or preferred stock and shall be composed of members rather than shareholders.

ARTICLE III

The purposes for which this corporation is formed are as follows:

- (1) To promote, assist, advise, research, formulate and publish information that will encourage conservation of all types of energy fuels, coal, oil, gas, timber and energy producing substance.
- (2) To promote, assist, advise, the development and production of oil and gas for distribution to utilities at the lowest cost possible to consumers.
- (3) To promote, train, and arrange for management, administrative, and technical personnel in the construction, management, maintenance, and operation of a small utility system; to meet all qualifications and standards required by State and Federal regulatory agencies having jurisdiction of utility operations.
- (4) To promote, publish, assemble, encourage and assist small utility systems in the adoption of a uniform accounting, control and reporting system to conform to the rules and regulations of State and Federal regulatory agencies having jurisdiction of utility operations.
- (5) To promote, advise and assist in establishing safe and economic use of energy by domestic and commercial users.
- (6) To provide technical advice and assistance of every kind and nature to small utility systems in the safe and economic manner to reduce cost of natural gas service to domestic and commercial users.
- (7) To receive aid, grants, gifts, contributions and other lawful forms of assistance, to distribute same to person, firms, corporations or other legal entity who are engaged in the natural gas distribution and energy related substances, and who operate as a small utility, in the furtherance of reducing cost to domestic consumers and for their safe and economic use of said services.

- (8) To borrow money, execute promissory notes, debentures, bonds, mortgage and pledge as security for its debts, to issue any and all forms of lawful commercial and negotiable instruments as obligations for any and all of its operations.
- (9) To aid support and assist by gifts, contributions or otherwise to underprivileged persons, poor or needy in the payment and credit for energy related services owed to or obligated for such utility services, to protect the health and well being of domestic residential users.
- (10) To promote, encourage, assist in the purchase of energy by-products, to store, stock pile and hold for future use and delivery when emergency arises, by reason of shortage of supply or curtailment for reasons beyond the control of the distributor or users of such energy.
- (11) To promote, encourage and assist in the formation of underground storage field of natural gas by use of depleted wells, said storage to be held for peak load use in winter months or during emergencies beyond the control of distributor and users so as to keep prices at minimum cost to domestic users.
- (12) To acquire, by lease, purchase or otherwise, hold, own, and operate natural gas systems and facilities, for the distribution of such natural gas to domestic and commercial users.

ARTICLE IV

To do all acts necessary or convenient to accomplish the purposes herein set forth to the same extent as any natural person could or might do and are not forbidden by law.

ARTICLE V

To have all powers, that are conferred upon non-profit corporations as set out in Chapter 273.161 to 273.390 of Kentucky Revised Statutes of Commonwealth of Kentucky and known as "Kentucky Nonprofit Corporation Acts" and shall be operated exclusively for such charitable purpose as are within the meaning of Section 501(c)(3) of the 1954 Internal Revenue Code.

ARTICLE VI

The name and address of the resident agent of the corporation is David D. Allen, 3 South Arnold Avenue, Prestonsburg, Kentucky 41653.

ARTICLE VII

The name and address of the directors who are to serve until the first annual meeting are:

|                  |  |                         |
|------------------|--|-------------------------|
| David D. Allen   | 3 South Arnold Avenue, Prestonsburg, Ky. | 41653                   |
| Stephen R. Allen | 917 Mason Headley Road, Lexington, Ky.   | 40504                   |
| Mary Leslie      | 41 N. Arnold Avenue                      | Prestonsburg, Ky. 41653 |

ARTICLE VIII

The property of the corporation shall be irrevocably dedicated to charitable purpose and no part of the net earnings of the corporation shall inure to the benefit of any member, director or individual.

ARTICLE IX

The corporation shall not sponsor, encourage or carry on any activity regarding any legislation, State or Federal, nor participate in any political campaign on behalf of or against any candidate for public office.

ARTICLE X

That upon dissolution of the corporation no member, officer or director shall be entitled to or receive any distribution or division of its property or proceeds from sale of same, including money or other property held or owned by the corporation, after the payments of all its debts and obligation. Its remaining property of every kind or nature shall be used or distributed by decree of a court of competent Jurisdiction in the County where its principal offices is located as provided by law, and only for the purposes set forth in the Articles herein and within the compliance of Section 501(c)(3) of the 1954 Internal Revenue Code and Chapter 273.161 to 273.390 of Kentucky Revised Statutes of the Commonwealth of Kentucky.

ARTICLE XI

Members of the corporation shall not be personally liable for any debt or obligation of the corporation by reason of membership.

ARTICLE XII

By Laws of the corporation may be adopted or amended by a majority of the members present and voting at a regular meeting.

ARTICLE XIII

Membership in the corporation may be terminated as provided by its By-Laws.

ARTICLE XIV

The duration of the corporation shall be perpetual, unless dissolved as provided by the laws of the Commonwealth of Kentucky.

In Witness Whereof, the undersigned incorporator has hereunto subscribed his name as of the 18 th day of June, 1979.

David D. Allen

STATE OF KENTUCKY

COUNTY OF FLOYD

I, Sarah E. Jones, a Notary Public in and for the State and County aforesaid do hereby certify that the foregoing Articles of Incorporation were presented to me in said State and County by David D. Allen who personally appeared before me and duly signed and acknowledged his signature as his act and deed for the purposes therein stated.

Given under my hand as Notary Public aforesaid this the 18 th day of June, 1979.

My Commission Expires:

August 27, 1979

Sarah E. Jones  
NOTARY PUBLIC  
FLOYD COUNTY - KENTUCKY

Prepared by:

U. B. [Signature] Attorney  
Prestonsburg, Kentucky 41653

STATE OF KENTUCKY  
COUNTY OF FLOYD

I, C. "OLLIE" ROBINSON, Clerk in and for the county and state aforesaid, do hereby certify that the foregoing is a true and correct copy of the Articles of Incorporation as appears on record in Book 2 Page 582 Vol # 1473 Floyd County Court Clerk's Office.

Witness my hand this the 27 day of June 19 79  
C. "OLLIE" ROBINSON, Clerk  
By: Donald Woods, Jr.

**Special Meeting of Members- East Kentucky Utilities, Inc.**

**At the designated time and place set out herein, the roll call of all members was Made by the Secretary. The President, John Allen, Jr. Presided as Chairman of Said membership meeting, by unanimous consent of all members present Judith A. McCreary, was duly elected Secretary of said meeting by unanimous consent.**

**Thereupon the Chairman called the meeting to order and announce that The present members of East Kentucky Utilities, Inc. Have voluntary requested that the Floyd County Fiscal Assume control of said entity. Nominations for new members of the Board of the Board were in order. The following individuals Were nominated:**

David Hayne II, Seldon Horn, and Edgar Rister  
to be Members of the Board of Directors, no other nominations were offered and it was moved thereupon said nominations were voted upon which was unanimous, and the Chairman duly declared the following members to be duly elected and qualified members of the Board of Directors to-Wit:

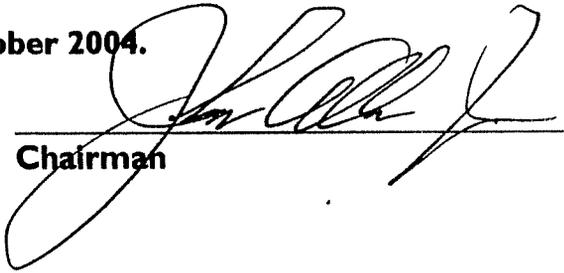
Seldon Horn                      Edgar Rister                      David Hayne II  
President                              Vice President                      SEC, Treasurer

**John Allen, Jr., Charles M.Harris and Judith A. McCreary in addition to their Resignation being declared at this meeting will in addition submit a written Individually resignation as a member and officer of East Kentucky Utilities, Inc..**

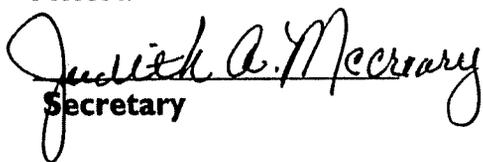
**It is further stated that the present Board of Directors hereby state that all the Present employees of East Kentucky Utilities, Inc. Are " Employees at will" and Have no contractual agreement for continued employment with East Kentucky Utilities, Inc.. And the present Board of Directors state that they have no knowledge of any pending or threatened litigation by any party against East Kentucky Utilities, Inc...**

**There being no further the meeting of Members and Officers was adjourned.**

**Dated this the 28th day of October 2004.**

  
Chairman

**Attest:**

  
Secretary

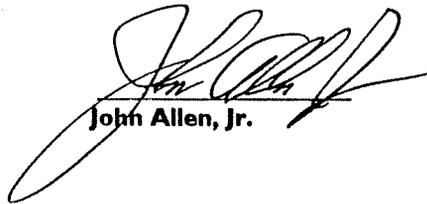
**LETTER OF RESIGNATION**

**TO: East Kentucky Utilities, Inc.  
P O Box 408  
Prestonsburg, Kentucky 41653**

**Re: Resignation as member and Officer of East Kentucky Utilities, Inc.:**

**I, John Allen, Jr. hereby submit my resignation as a member and Officer of East Kentucky Utilities, Inc. Effective 12:00 o'clock midnight on Thursday, Oct. 28, 2004.**

**Per Special meeting held this same day by East Kentucky Utilities, Inc. I state as to my resignation and shows the new members nominated and approved as of This date.**

  
**John Allen, Jr.**

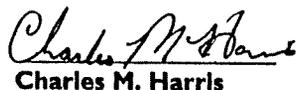
**I, Judith A. McCreary hereby submit my resignation as a member and officer of East Kentucky Utilities, Inc. Effective 12:00 o'clock midnight on Thursday, Oct. 28, 2004.**

**Per Special meeting held this same day by East Kentucky Utilities, Inc. I state as to my resignation and shows the new members nominated and approved as of This date.**

  
**Judith A. McCreary**

**I, Charles M. Harris hereby submit my resignation as a member of East Kentucky Utilities, Inc. Effective 12:00 o'clock midnight on Thursday, Oct. 28, 2004.**

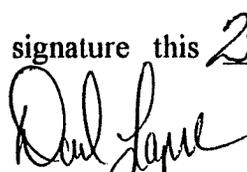
**Per Special meeting held this same day by East Kentucky Utilities, Inc. I state as to my resignation and shows the new members nominated and approved as of This date.**

  
**Charles M. Harris**

**AFFIDAVIT**

I, David A. Layne, II, after first being duly sworn, state that I am the Secretary/Treasurer of East Kentucky Utilities, Inc., having been elected to that office by the corporation's Board of Directors on October 29, 2004. In my capacity as Secretary/Treasurer of East Kentucky Utilities, Inc., I am the custodian of certain records of that corporation, including the existing Resolutions and Minutes of the corporation. In my capacity as Secretary/Treasurer of East Kentucky Utilities, Inc., I do state that the attached copies of the Minutes of the 10/29/04 Meeting of the Board of Directors of East Kentucky Utilities, Inc. are true and accurate copies of the original documents currently in my custody.

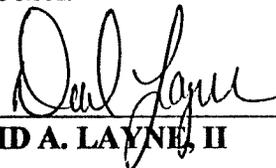
IN TESTIMONY WHEREOF, witness my signature this 2<sup>ND</sup> day of November, 2004.



\_\_\_\_\_  
**DAVID A. LAYNE, II**  
in his capacity as Secretary/Treasurer,  
East Kentucky Utilities, Inc.

**VERIFICATION**

I, David A. Layne, II, in my capacity as Secretary/Treasurer of East Kentucky Utilities, Inc., do hereby certify that the foregoing Minutes are true and accurate copies of the corporation's Minutes to the best of my knowledge and belief.



\_\_\_\_\_  
**DAVID A. LAYNE, II**

**STATE OF KENTUCKY**  
**COUNTY OF FLOYD**

The foregoing instrument was acknowledged before me this 2<sup>ND</sup> day of November, 2004 by David A. Layne, II, the Secretary/Treasurer of East Kentucky Utilities, Inc., a Kentucky Corporation, on behalf of the corporation.



\_\_\_\_\_  
**NOTARY PUBLIC,**  
**STATE AT LARGE**  
My Commission expires: 8/06/08.

**EAST KENTUCKY UTILITIES, INC.**

**MINUTES**

**DATE OF MEETING: 10/29/04**

An Organizational Meeting of the Board of Directors of East Kentucky Utilities, Inc. was convened on October 29, 2004 at 11:00 a.m. by a call of the newly appointed directors of the corporation. The initial meeting took place at the Floyd County Courthouse in the offices of the Floyd County Judge/Executive located at 149 South Central Avenue, Suite 9, Prestonsburg, Kentucky. All of the newly appointed directors were present, namely, Mr. Edgar Rister, Mr. Seldon Horne, and Mr. David A. Layne, II. Also present at the meeting were Floyd County Judge/Executive Paul H. Thompson, Floyd County Deputy Judge/Executive Brett D. Davis, and Assistant County Attorney Dwight S. Marshall.

A motion was made by Mr. Horne and seconded by Mr. Rister that Mr. Layne be elected to serve as the initial chair of the meeting. The motion passed upon unanimous vote of the directors present and Mr. Layne was elected initial chair of the meeting. Mr. Layne then called to order the meeting of the Board of Directors of East Kentucky Utilities, Inc.

**Under the topic of New Business:**

Mr. Layne noted that all three of the former directors of East Kentucky Utilities, Inc., as well as the corporation's officers, had resigned, with their resignations to be effective at 12:00 o'clock Midnight on October 28, 2004. These former directors were Mr. John Allen, Jr., who had served as Chairman of the Board of Directors as well as President of the corporation, Ms. Judith A. McCreary, who had served as a member of the Board of Directors as well as Secretary/Treasurer of the corporation, and Mr. Charles Michael Harris, who had served as a member of the Board of Directors. There presently being no chairman of the Board of Directors nor any officers of the corporation due to these resignations, Mr. Layne called for nominations and elections of a chairman of the Board of Directors and officers for the corporation.

A motion was made by Mr. Horne and seconded by Mr. Rister that David A. Layne, II serve as Chairman of the Board of Directors of East Kentucky Utilities, Inc. The motion carried by unanimous vote of the directors present and Mr. Layne was elected Chairman of the Board of Directors of East Kentucky Utilities, Inc.

A motion was made by Mr. Layne and seconded by Mr. Rister that Seldon Horne serve as President of East Kentucky Utilities, Inc. The motion carried by unanimous vote of the directors present and Mr. Horne was elected President of East Kentucky Utilities, Inc.

A motion was made by Mr. Layne and seconded by Mr. Horne that Edgar Rister serve as Vice-President of East Kentucky Utilities, Inc. The motion carried by unanimous vote of the directors present and Mr. Rister was elected Vice-President of East Kentucky Utilities, Inc.

A motion was made by Mr. Rister and seconded by Mr. Horne that David A. Layne, II serve as Secretary/Treasurer of East Kentucky Utilities, Inc. and that the Secretary/Treasurer of the corporation be delegated responsibility for preparing the minutes of the directors' meetings and for authenticating records of the corporation, under the signature of the corporation's President. The motion carried by unanimous vote of the directors present and Mr. Layne was elected Secretary/Treasurer of East Kentucky Utilities, Inc., with these additional delegated responsibilities.

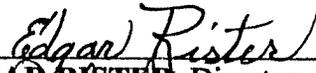
Following these elections, the Board of Directors discussed the continued operation of East Kentucky Utilities, Inc. A motion was made by Mr. Horne and seconded by Mr. Rister, as follows, that: 1) All employees be retained by the corporation for a period of thirty (30) days, through and including November 30, 2004, while the operations of the corporation are being evaluated, with their continued employment to be evaluated on a month-to-month basis; and 2) All employees retain their same salaries and benefits during their continued employment, with the Secretary/Treasurer, however, being given authority to enter into negotiations with Mr. John Allen, Jr. and Ms. Judith A. McCreary regarding their salaries as employees of the corporation. The motion carried by unanimous vote of the directors present.

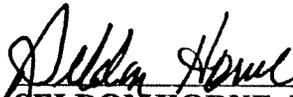
The Board of Directors then discussed the status of the corporation's insurance. Mr. Layne stated that Mr. John Allen, Jr. had advised him that Kentucky Association of Counties (hereinafter referred to as "KACO") had cancelled the corporation's liability insurance in May 2004, stating that KACO did not want to insure companies that were supplying natural gas. The Board then called Mr. Denzil Allen, KACO's agent for the Floyd County Fiscal Court, and asked Mr. Allen to report to them on the actual status of the corporation's liability insurance as well as all other necessary insurance and to advise them as to their prospects of obtaining all such insurance for the corporation through KACO.

The Board of Directors then discussed the corporation's bank accounts. A motion was made by Mr. Rister and seconded by Mr. Horne, as follows, that: 1) New signature cards be prepared and signed by the three new officers of East Kentucky Utilities, Inc. at all banks where the corporation presently maintains its accounts; and 2) The signatures of at least two (2) officers of East Kentucky Utilities, Inc. be required for each of the corporation's checks and other negotiable instruments, following approval for their issuance by a majority vote of the Board of Directors. The motion carried by unanimous vote of the directors present.

There being no further business of the Board of Directors, a motion was made by Mr. Horne and seconded by Mr. Rister that the meeting be adjourned. The motion

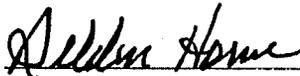
carried by unanimous vote of the directors present. The Organizational Meeting of East Kentucky Utilities, Inc. was then adjourned.

  
\_\_\_\_\_  
**EDGAR RISTER, Director**

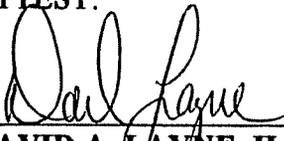
  
\_\_\_\_\_  
**SELDON HORNE, Director**

  
\_\_\_\_\_  
**DAVID A. LAYNE, II, Director**

These Minutes approved in their entirety this  
the 2<sup>ND</sup> day of November, 2004.

  
\_\_\_\_\_  
**SELDON HORNE**  
President,  
East Kentucky Utilities, Inc.

ATTEST:

  
\_\_\_\_\_  
**DAVID A. LAYNE, II**  
Secretary/Treasurer,  
East Kentucky Utilities, Inc.

**EXHIBIT NO. 2**  
**PROPOSED TARIFF**



**EXHIBIT NO. 3**

**COMPARISON –  
PROPOSED & CURRENT  
TARIFFS**

P.S.C. No. 1

94TH SHEET No. 1

CANCELLING P.S.C. No. 1

93RD SHEET No. 1

EAST KENTUCKY UTILITIES, INC.  
NAME OF ISSUING CORPORATION

CLASSIFICATION OF SERVICE

|          |
|----------|
| RATE     |
| PER UNIT |

RATE SCHEDULE: APPLICABLE IN ALL TERRITORY SERVED BY COMPANY.

AVAILABILITY OF SERVICE: FOR ALL RESIDENTIAL AND COMMERCIAL PURPOSES.

RATES      MONTHLY

FIRST                      1 MCF

OVER                        1 MCF

~~13.6140~~ 17.0902

~~10.4992~~ 12.3455

MINIMUM BILL

~~13.62~~ 17.10

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

MAR 01 2002

PURSUANT TO 807 KAR 5.011.  
SECTION 9(1)

DATE OF ISSUE MARCH 13, 2002

DATE EFFECTIVE MARCH 1, 2002  
By Stephan O. Bell  
SECRETARY OF THE COMMISSION

ISSUED BY [Signature]  
NAME OF OFFICER

TITLE - PRESIDENT

Issued by authority of an Order of the Public Service Commission of Kentucky in

CASE No.                      2002-00061

DATED                      MARCH 11, 2002

**EXHIBIT NO. 4**

**PRO FORMA  
FINANCIAL STATEMENTS**

**Exhibit No: 3**  
**Utility: East Kentucky Utilities**  
**Title: Pro Forma Income Statement**

|  | Test Year End<br>Balances | Pro Forma<br>Adjustments | Adj.<br>Ref. | Pro Forma Test<br>Year Balances |
|--|---------------------------|--------------------------|--------------|---------------------------------|
| Operating Revenue                        |                           |                          |              |                                 |
| Gas Sales                                | 801,117.50                | (3,432.48)               | (a)          | 797,685.02                      |
| Penalties                                | 8,611.76                  |                          |              | 8,611.76                        |
| Service Charge                           | 3,280.00                  |                          |              | 3,280.00                        |
| Total Operating Revenue                  | 813,009.26                | (3,432.48)               |              | 809,576.78                      |
| Total Operating Expenses                 |                           |                          |              |                                 |
| Operation and Maintenance Expenses       |                           |                          |              |                                 |
| Gas Purchases                            | 520,631.50                |                          |              | 520,631.50                      |
| Mains & Services Labor                   | 89,503.72                 | (2,279.76)               | (b)          | 87,223.96                       |
| Maintenance of Lines                     | 11,477.67                 | (334.50)                 | (c)          | 11,143.17                       |
| Services Supplies & Expenses             | 1,290.61                  |                          |              | 1,290.61                        |
| Accounting & Collection Labor            | 41,375.00                 | (32,750.00)              | (d)          | 8,625.00                        |
| Bad Debt                                 | 6,273.96                  |                          |              | 6,273.96                        |
| Admin & General Salaries                 | 65,750.00                 | 6,250.00                 | (e)          | 72,000.00                       |
| Office Supplies & Expenses               | 17,163.54                 | (1,089.92)               | (f)          | 16,073.62                       |
| Outside Services                         | 31,941.21                 | (27,200.00)              | (g)          | 4,741.21                        |
| Insurance                                | 14,691.17                 | 19,078.82                | (h)          | 33,769.99                       |
| Employee Benefits                        | 35,591.16                 | 1,712.34                 | (i)          | 37,303.50                       |
| Equipment Rental                         | 2,481.94                  | (2,481.94)               | (j)          | 0.00                            |
| Miscellaneous General Expenses           | 466.20                    |                          |              | 466.20                          |
| Rents                                    | 16,109.26                 |                          |              | 16,109.26                       |
| Transportation Expense                   | 18,511.47                 | (3,180.87)               | (k)          | 15,330.60                       |
| Total Operation and Maintenance Expenses | 873,258.41                | (42,275.84)              |              | 830,982.58                      |
| Interest Expense                         | 43,086.99                 | 7,156.51                 | (l)          | 50,243.50                       |
| Depreciation Expense                     | 35,490.44                 |                          |              | 35,490.44                       |
| Amort Debt Depr & Expense                | 2,165.00                  |                          |              | 2,165.00                        |
| Taxes Other than Income                  | 13,744.50                 | 859.56                   | (m)          | 14,604.06                       |
| Total Operating Expenses                 | 967,745.34                | (34,259.76)              |              | 933,485.58                      |
| Net Operating Income (Loss)              | (154,736.08)              | 30,827.28                |              | (123,908.80)                    |
| Other Income (Deductions)                |                           |                          |              |                                 |
| Interest Income                          | 550.71                    |                          |              | 550.71                          |
| Other Income                             | 2,700.00                  |                          |              | 2,700.00                        |
| Total Other Income (Deductions)          | 3,250.71                  | 0.00                     |              | 3,250.71                        |
| NET INCOME                               | (151,485.37)              | 30,827.28                |              | (120,658.09)                    |

**EXHIBIT 5**

**PRO FORMA  
ADJUSTMENT DESCRIPTIONS**

| <b>Adj. Ref.</b> | <b>Adjustment Description</b>  |
|------------------|--|
| (a)              | <b>Revenue from Gas Sales:</b> This adjustment reflects the change in the number of customers at test-year-end with the test-year average number of customers. |
| (b)              | <b>Mains &amp; Services Labor:</b> This adjustment reflects the current staff level and current wage rates.  |
| (c)              | <b>Maintenance of Lines:</b> This adjustment reflects the elimination of repair work to an employee's home, a floral arrangement, and a grocery gift card.     |
| (d)              | <b>Accounting &amp; Collection Labor:</b> This adjustment reflects elimination of the management firm and the current staff level and current wage rate.       |
| (e)              | <b>Administrative &amp; General Salaries:</b> This adjustment reflects the current staff level and current wage rates.   |
| (f)              | <b>Office Supplies &amp; Expenses:</b> This adjustment reflects the elimination of the old cellular telephone contract and corrects misclassified expenses.    |
| (g)              | <b>Outside Services:</b> This adjustment removes the management consulting fees.   |
| (h)              | <b>Insurance:</b> This adjustment reflects an expected increase in liability insurance.  |
| (i)              | <b>Employee Benefits:</b> This adjustment reflects the current health and retirement expenses.   |
| (j)              | <b>Equipment Rental:</b> This adjustment removes the non-recurring equipment rental.   |
| (k)              | <b>Transportation Expense:</b> This adjustment reflects the elimination of non-field personnel fuel expenses and corrects misclassified expenses.              |
| (l)              | <b>Interest Expense:</b> This adjustment reflects the increase in interest expense due to the debt refinancing.  |
| (m)              | <b>Taxes Other than Income:</b> This adjustment reflects the payroll taxes at the current wage rates.  |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (a) Gas Sales - Year-end Customer Adjustment

| (1)<br># of Customers<br>at End of Test Year<br>38168 | (2)<br>Test Year<br>Average<br># Customers | (3)<br>Test Year End<br>vs. Test Year<br>Avg. Customers<br>(1) - (2) | (4)<br>Test Year<br>Usage of<br>> 1 Mcf | (5)<br>Average Annual<br>Sales per<br>Customer<br>(4)/(2) |
|---|--|--|---|---|
| 1,035   | 1,048                                      | (13)   | 57,104                                  | 54.49   |

**ADJUSTMENT TO TEST YEAR REVENUE**

|                      | Current Minimum<br>Bill without<br>Gas Cost | Decrease in<br>Number of<br>Customers | # Months<br>in<br>Test Period | Impact on<br>Minimum Bill<br>Revenue |
|----------------------|---|---------------------------------------|-------------------------------|--------------------------------------|
| All Customer Classes | \$6.5238                                    | (13)                                  | 12                            | (\$1,017.71)                         |

|                      | Average Annual<br>Sales per<br>Customer | Year End<br>vs. Test Year<br>Average | Per Mcf<br>Base<br>Rate | Impact on<br>Base Rate<br>Revenue |
|----------------------|---|--------------------------------------|-------------------------|-----------------------------------|
| All Customer Classes | 54.49                                   | (13)                                 | \$3.4090                | (\$2,414.77)                      |

|                              |                     |
|------------------------------|---------------------|
| Revenue Adjustment           | (\$3,432.48)        |
| Associated Incremental Costs | 0                   |
| Net Incremental Revenues     | <u>(\$3,432.48)</u> |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (b) Mains & Services Labor

| <b>Employee Name</b>        | <b>Test-year Wages</b> | <b>Annualized Wages</b> | <b>Adjustment</b> |
|-----------------------------|------------------------|-------------------------|-------------------|
| C.Harris (new hire 10/03)   | 20,250.00              | 30,000.00               | 9,750.00          |
| H.Case                      | 28,804.48              | 29,325.36               | 520.88            |
| M.Case                      | 24,769.60              | 24,879.60               | 110.00            |
| R.Wilcox (retired 12/31/03) | 12,660.64              | 0.00                    | (12,660.64)       |
| L.Goodman                   | 1,059.25               | 1,059.25                | 0.00              |
| <b>Total</b>                | <u>87,543.97</u>       | <u>85,264.21</u>        | <u>(2,279.76)</u> |
| Pro Forma Adjustment        |                        |                         | <u>(2,279.76)</u> |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (c) Maintenance of Lines

| <u>Check No.</u>     | <u>Vendor</u>       | <u>Description</u>     | <u>Amount</u>   |
|----------------------|---------------------|------------------------|-----------------|
| 12976                | Jenny Wiley Florist | flowers - Wilcox       | \$ 79.50        |
| 12980                | Elliott Glass       | work to J.Allen's home | 130.00          |
| 12492                | Food City           | gift card              | <u>125.00</u>   |
| Pro Forma Adjustment |                     |                        | <u>(334.50)</u> |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (d) Accounting & Collection Labor

| <u>Description</u>                        | <u>Adjustment</u>        |
|---|--------------------------|
| Remove Tax Consulting Inc. management fee | (\$23,000)               |
| Normalize part-time employee wages        | <u>(9,750)</u>           |
| Pro Forma Adjustment                      | <u><u>(\$32,750)</u></u> |

**Normalized part-time employee wages:**

| <u>Employee</u> | <u>Test-Year Wages</u> | <u>Annualized Wages</u> | <u>Adjustment</u> |
|-----------------|------------------------|-------------------------|-------------------|
| J.L. Allen      | \$20,250               | \$10,500                | (\$9,750)         |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (e) Administrative & General Salaries

| Employee Name        | Test-year Wages  | Annualized Wages | Adjustment             |
|----------------------|------------------|------------------|------------------------|
| J. McCreary (Note 1) | 65,750.00        | 48,000.00        | (17,750.00)            |
| D. Layne (Note 2)    | 0.00             | 24,000.00        | 24,000.00              |
| Total                | <u>65,750.00</u> | <u>48,000.00</u> |                        |
| Pro Forma Adjustment |                  |                  | <u><u>6,250.00</u></u> |

Note 1: J. McCreary annual salary reduced due to financial conditions of the company

Note 2: D. Layne hired as new general manager to replace management services of Tax Consulting, Inc.

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (f) Office Supplies & Expenses

| <u>Description</u>   | <u>Adjustment</u>        |
|--|--------------------------|
| Removed Cingular Wireless expenses<br>contract expires fall 2004 - will not be renewed | (1,521.38)               |
| Reclassified expenses from Account No. 933 -<br>Transportation Expenses                | <u>431.46</u>            |
| Pro Forma Adjustment   | <u><u>(1,089.92)</u></u> |

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (g) Outside Services

| <u>Description</u>  | <u>Adjustment</u>        |
|---|--------------------------|
| Removed Tax Consulting Inc<br>management services - non-recurring | (\$18,200)               |
| Reversed adjusting entry to accrue salary                         | <u>(9,000)</u>           |
| Pro Forma Adjustment  | <u><u>(\$27,200)</u></u> |

Exhibit No: 4  
Utility: East Kentucky Utilities  
Adjustment: (h) Insurance Expense

|                                       | <u>Amount</u>           |
|---------------------------------------|-------------------------|
| Test Year Insurance Expense           | 14,691.17               |
| Average of current quotes<br>(Note 1) | <u>33,769.99</u>        |
| Pro Forma Adjustment                  | <u><u>19,078.82</u></u> |

Note 1: East Kentucky currently has no liability insurance. At this time, East Kentucky has obtained two quotes - one at \$31,745.06 and the other at \$35,794.91.  
Average of current quotes:

|                    |
|--------------------|
| 35,794.91          |
| <u>31,745.06</u>   |
| 67,539.97          |
| <u>divide by 2</u> |
| 33,769.99          |

**Exhibit No: 4**  
**Utility: East Kentucky Utilities**  
**Adjustment: (i) Employee Benefits**

|  |                  |                        |
|--|------------------|------------------------|
| Normalize Employee Health Insurance Expense                                |                  |                        |
| Test Year Actual   | 18,593.45        |                        |
| Normalized Expense   | <u>21,320.16</u> |                        |
| Adjustment   |                  | 2,726.71               |
| Normalize Part-time Employee Health Insurance Expense                      |                  |                        |
| Test Year Actual   | 2,559.00         |                        |
| Normalized Expense   | <u>2,655.00</u>  |                        |
| Adjustment   |                  | 96.00                  |
| Normalize Employee Retirement Expense (calculated at 8.48% of gross wages) |                  |                        |
| Test Year Actual   | 12,321.35        |                        |
| Annualized Amount  | <u>11,210.98</u> |                        |
| Adjustment   |                  | (1,110.37)             |
| Pro Forma Adjustment   |                  | <u><u>1,712.34</u></u> |

**Exhibit No: 4**  
**Utility: East Kentucky Utilities**  
**Adjustment: (j) Equipment Rental**

Remove equipment rental - non-recurring expense (2,481.94)

**Exhibit No:** 4  
**Utility:** East Kentucky Utilities  
**Adjustment:** (k) Transportation Expense

| <u>Description</u>   | <u>Adjustment</u>        |
|--|--------------------------|
| Removed office manager fuel card expenses                                | (2,749.41)               |
| Reclassified expenses to Account No. 921 -<br>Office Supplies & Expenses | <u>(431.46)</u>          |
| Pro Forma Adjustment   | <u><u>(3,180.87)</u></u> |

**Exhibit No: 4**  
**Utility: East Kentucky Utilities**  
**Adjustment: (i) Interest Expense**

|  |                        |
|--|------------------------|
| Interest Expense from Debt Rehabilitation<br>Post Test Year        | 22,000.00              |
| Remove Interest Expense of Debt<br>included in Debt Rehabilitation | <u>(14,843.49)</u>     |
| Pro Forma Adjustment   | <u><u>7,156.51</u></u> |

Calculation of Interest from Debt Rehabilitation

|                         |                         |
|-------------------------|-------------------------|
| Loan Amount             | 550,000                 |
| Fixed Interest Rate     | <u>4%</u>               |
| Annual Interest Expense | <u><u>22,000.00</u></u> |

Exhibit No: 4  
 Utility: East Kentucky Utilities  
 Adjustment: (m) Taxes Other than Income

| Employee                    | Annualized Wages | Normalized Payroll Taxes |                 |            |           |              |
|-----------------------------|------------------|--------------------------|-----------------|------------|-----------|--------------|
|                             |                  | FICA @ 0.062             | Medicare 0.0145 | FUTA 0.008 | SUI 0.004 | P'burg 0.015 |
| C.Harris (new hire 10/03)   | 30,000.00        | 1,860.00                 | 435.00          | 56.00      | 28.00     | 0.00         |
| H.Case                      | 29,325.36        | 1,818.17                 | 425.22          | 56.00      | 28.00     | 0.00         |
| M.Case                      | 24,879.60        | 1,542.54                 | 360.75          | 56.00      | 28.00     | 0.00         |
| R.Wilcox (retired 12/31/03) | 0.00             | 0.00                     | 0.00            | 0.00       | 0.00      | 0.00         |
| J.L.Allen                   | 10,500.00        | 651.00                   | 152.25          | 56.00      | 28.00     | 157.50       |
| J.McCreary                  | 48,000.00        | 2,976.00                 | 696.00          | 56.00      | 28.00     | 720.00       |
| D.Layne                     | 24,000.00        | 1,488.00                 | 348.00          | 56.00      | 28.00     | 360.00       |
| L.Goodman                   | 1,059.25         | 65.67                    | 15.36           | 8.47       | 4.24      | 15.89        |
|                             | 167,764.21       | 10,401.38                | 2,432.58        | 344.47     | 172.24    | 1,253.39     |

|                                |               |
|--------------------------------|---------------|
| Test Year Actual Payroll Taxes | 13,744.50     |
| Normalized Payroll Taxes       | 14,604.06     |
| Pro Forma Adjustment           | <u>859.56</u> |

Exhibit No: 3  
 Utility: East Kentucky Utilities  
 Title: Pro Forma Balance Sheet

|   | <u>Test-Period<br/>Operations</u> | <u>Pro Forma<br/>Adjustments</u> | <u>Pro Forma<br/>Operations</u> | <u>Test-Period<br/>Operations</u> | <u>Pro Forma<br/>Adjustments</u> | <u>Pro Forma<br/>Operations</u> |
|---|-----------------------------------|----------------------------------|---------------------------------|-----------------------------------|----------------------------------|---------------------------------|
| <b><u>ASSETS &amp; OTHER DEBITS</u></b>         |                                   |                                  |                                 |                                   |                                  |                                 |
| <b><u>UTILITY PLANT</u></b>                     |                                   |                                  |                                 |                                   |                                  |                                 |
| Utility Plant                                   | \$ 1,217,186                      |                                  | \$ 1,217,186                    | \$ 369,554                        |                                  | \$ 369,554                      |
| Less: Accumulated Depreciation                  | 954,519                           |                                  | 954,519                         | (675,540)                         |                                  | (848,193)                       |
| Net Utility Plant                               | <u>\$ 262,667</u>                 | <u>\$ -</u>                      | <u>\$ 262,667</u>               | <u>(151,485)</u>                  | <u>37,984</u>                    | <u>(113,501)</u>                |
|   |                                   |                                  |                                 | <u>\$ (457,471)</u>               | <u>\$ (134,689)</u>              | <u>\$ (592,140)</u>             |
| <b><u>OTHER PROPERTY &amp; INVESTMENTS</u></b>  |                                   |                                  |                                 |                                   |                                  |                                 |
| Other Special Funds                             | \$ 60,727                         |                                  | \$ 60,727                       |                                   |                                  | \$ 350,000                      |
| Vehicles:                                       | 78,246                            |                                  | 78,246                          |                                   |                                  | 350,000                         |
| Net Other Property & Investments                | <u>\$ 138,973</u>                 | <u>\$ -</u>                      | <u>\$ 138,973</u>               | <u>242,221</u>                    | <u>307,779</u>                   | <u>550,000</u>                  |
|   |                                   |                                  |                                 | <u>\$ 592,221</u>                 | <u>\$ 307,779</u>                | <u>\$ 900,000</u>               |
| <b><u>CURRENT &amp; ACCRUED ASSETS</u></b>      |                                   |                                  |                                 |                                   |                                  |                                 |
| Cash  | \$ 16,982                         |                                  | \$ 170,092                      |                                   |                                  | \$ 209,281                      |
| Accounts & Notes Receivable                     | 52,596                            |                                  | 52,596                          |                                   |                                  | 60,727                          |
| Unamortized Debt Expense                        |                                   |                                  |                                 |                                   |                                  | 41,249                          |
| Total Current & Accrued Assets                  | <u>\$ 69,578</u>                  | <u>\$ 153,110</u>                | <u>\$ 222,688</u>               | <u>229,281</u>                    | <u>(20,000)</u>                  | <u>209,281</u>                  |
|   |                                   |                                  |                                 | 60,727                            |                                  | 60,727                          |
|   |                                   |                                  |                                 | 41,249                            |                                  | 41,249                          |
|   |                                   |                                  |                                 | 18,929                            |                                  | 18,929                          |
|   |                                   |                                  |                                 | 1,979                             |                                  | 1,979                           |
|   |                                   |                                  |                                 | <u>\$ 352,165</u>                 | <u>(20,000)</u>                  | <u>\$ 332,165</u>               |
| <b>Total Assets &amp; Other Debits</b>          | <u>\$ 486,914</u>                 | <u>\$ 153,110</u>                | <u>\$ 640,024</u>               | <u>\$ 486,914</u>                 | <u>\$ 153,110</u>                | <u>\$ 640,024</u>               |
| <b><u>EQUITY CAPITAL &amp; LIABILITIES</u></b>  |                                   |                                  |                                 |                                   |                                  |                                 |
| <b><u>EQUITY CAPITAL</u></b>                    |                                   |                                  |                                 |                                   |                                  |                                 |
| Contributed Capital                             |                                   |                                  |                                 |                                   |                                  | \$ 369,554                      |
| Retained Earnings                               |                                   |                                  |                                 |                                   |                                  | (848,193)                       |
| Net Income                                      |                                   |                                  |                                 |                                   |                                  | 37,984                          |
| Total Equity Capital                            |                                   |                                  |                                 |                                   |                                  | <u>(134,689)</u>                |
|   |                                   |                                  |                                 |                                   |                                  | <u>\$ 350,000</u>               |
| <b><u>LONG-TERM DEBT</u></b>                    |                                   |                                  |                                 |                                   |                                  |                                 |
| Bonds   |                                   |                                  |                                 |                                   |                                  | \$ 350,000                      |
| Other Long Term Debt                            |                                   |                                  |                                 |                                   |                                  | 307,779                         |
| Total Long-Term Debt                            |                                   |                                  |                                 |                                   |                                  | <u>307,779</u>                  |
|   |                                   |                                  |                                 |                                   |                                  | <u>\$ 307,779</u>               |
| <b><u>CURRENT &amp; ACCRUED LIABILITIES</u></b> |                                   |                                  |                                 |                                   |                                  |                                 |
| Accounts & Note Payable                         |                                   |                                  |                                 |                                   |                                  | \$ (20,000)                     |
| Operating Reserves                              |                                   |                                  |                                 |                                   |                                  | 60,727                          |
| Customer Deposits                               |                                   |                                  |                                 |                                   |                                  | 41,249                          |
| Accrued Interest on Long-Term Debt              |                                   |                                  |                                 |                                   |                                  | 18,929                          |
| Accrued Taxes                                   |                                   |                                  |                                 |                                   |                                  | 1,979                           |
| Total Current & Accrued Liabilities             |                                   |                                  |                                 |                                   |                                  | <u>(20,000)</u>                 |
|   |                                   |                                  |                                 |                                   |                                  | <u>\$ 332,165</u>               |
| <b>Total Equity Capital &amp; Liabilities</b>   |                                   |                                  |                                 |                                   |                                  | <u>\$ 640,024</u>               |

Exhibit No: 4  
Utility: East Kentucky Utilities, Inc.  
Title: Index of Pro Forma Adjustments - Balance Sheet

| <b>Adj. Ref.</b> | <b>Adjustment Description</b>  |
|------------------|--|
| (n)              | <b>Cash:</b> This adjustment reflects the amount of the proposed increase.   |
| (o)              | <b>Retained Earnings:</b> This adjustment reflects the net effect of the debt restructure and the proposed increase.                       |
| (p)              | <b>Net Income:</b> This adjustment reflects the pro forma adjustments to the test year operations.   |
| (q)              | <b>Other Long-Term Debt:</b> This adjustment reflects restructuring of the long-term debt.   |
| (r)              | <b>Accounts &amp; Note Payable:</b> This adjustment reflects the restructuring of an outstanding note with the long-term debt restructure. |

Exhibit No: 4  
Utility: East Kentucky Utilities  
Adjustment: Balance Sheet Adjustments

| Adjustment  | Amount           |
|---|------------------|
| (n) Cash - Increase requested                                 | <u>153,110</u>   |
| (o) Retained Earnings   |                  |
| Increase to Long-term Debt                                    | 307,779          |
| Decrease to Note Payable                                      | (20,000)         |
| Pro forma adjustments to Test Year                            | 37,984           |
| Increase requested  | <u>(153,110)</u> |
| Pro Forma Adjustment  | <u>172,653</u>   |
| (p) Net Income - adjustments to test year                     | <u>37,984</u>    |
| (q) Other Long-Term Debt - Increase due to debt restructuring | <u>307,779</u>   |
| (r) Note Payable - decrease due to debt restructuring         | <u>(20,000)</u>  |

**EXHIBIT 6**  
**BILLING ANALYSIS**

Exhibit No: 6  
 Utility: East Kentucky Utilities, Inc.  
 Title: Billing Analysis - Calculated Revenues using Base Rates

**CURRENT RATES**

| Billing Month  | MINIMUM BILL REVENUE 0-1 MCF |                   |                    |                   | REVENUE FOR BILLINGS OVER 1 MCF |                  |                |                     |
|----------------|------------------------------|-------------------|--------------------|-------------------|---------------------------------|------------------|----------------|---------------------|
|                | Number of Customers          | Minimum Bill Rate | Expected Revenue   | Total Usage Mcf * | Minus Bill 1 Mcf                | Usage Over 1 Mcf | Commodity Rate | Expected Revenue    |
| July 2003      | 1040                         | \$6.5238          | \$6,784.75         | 1,428             | (1,040)                         | 388              | \$3.4090       | \$1,322.69          |
| August 2003    | 1040                         | \$6.5238          | \$6,784.75         | 1,257             | (1,040)                         | 217              | \$3.4090       | \$739.75            |
| September 2003 | 1039                         | \$6.5238          | \$6,778.23         | 1,397             | (1,039)                         | 358              | \$3.4090       | \$1,220.42          |
| October 2003   | 1060                         | \$6.5238          | \$6,915.23         | 3,801             | (1,060)                         | 2,741            | \$3.4090       | \$9,344.07          |
| November 2003  | 1063                         | \$6.5238          | \$6,934.80         | 5,344             | (1,063)                         | 4,281            | \$3.4090       | \$14,593.93         |
| December 2003  | 1049                         | \$6.5238          | \$6,843.47         | 14,102            | (1,049)                         | 13,053           | \$3.4090       | \$44,497.68         |
| January 2004   | 1063                         | \$6.5238          | \$6,934.80         | 12,558            | (1,063)                         | 11,495           | \$3.4090       | \$39,186.46         |
| February 2004  | 1050                         | \$6.5238          | \$6,849.99         | 13,040            | (1,050)                         | 11,990           | \$3.4090       | \$40,873.91         |
| March 2004     | 1043                         | \$6.5238          | \$6,804.32         | 8,336             | (1,043)                         | 7,293            | \$3.4090       | \$24,861.84         |
| April 2004     | 1048                         | \$6.5238          | \$6,836.94         | 4,987             | (1,048)                         | 3,939            | \$3.4090       | \$13,428.05         |
| May 2004       | 1049                         | \$6.5238          | \$6,843.47         | 2,171             | (1,049)                         | 1,122            | \$3.4090       | \$3,824.90          |
| June 2004      | 1035                         | \$6.5238          | \$6,752.13         | 1,262             | (1,035)                         | 227              | \$3.4090       | \$773.84            |
| <b>TOTAL</b>   | <b>1048.25</b>               |                   | <b>\$82,062.88</b> | <b>69,683</b>     | <b>(12,579)</b>                 | <b>57,104</b>    |                | <b>\$194,667.54</b> |

**PROPOSED RATES**

| Billing Month  | MINIMUM BILL REVENUE 0-1 MCF |                   |                     |                   | REVENUE FOR BILLINGS OVER 1 MCF |                  |                |                     |
|----------------|------------------------------|-------------------|---------------------|-------------------|---------------------------------|------------------|----------------|---------------------|
|                | Number of Customers          | Minimum Bill Rate | Expected Revenue    | Total Usage Mcf * | Minus Bill 1 Mcf                | Usage Over 1 Mcf | Commodity Rate | Expected Revenue    |
| July 2003      | 1040                         | \$10.00           | \$10,400.00         | 1,428             | (1,040)                         | 388              | \$5.2553       | \$2,039.06          |
| August 2003    | 1040                         | \$10.00           | \$10,400.00         | 1,257             | (1,040)                         | 217              | \$5.2553       | \$1,140.40          |
| September 2003 | 1039                         | \$10.00           | \$10,390.00         | 1,397             | (1,039)                         | 358              | \$5.2553       | \$1,881.40          |
| October 2003   | 1060                         | \$10.00           | \$10,600.00         | 3,801             | (1,060)                         | 2,741            | \$5.2553       | \$14,404.78         |
| November 2003  | 1063                         | \$10.00           | \$10,630.00         | 5,344             | (1,063)                         | 4,281            | \$5.2553       | \$22,497.94         |
| December 2003  | 1049                         | \$10.00           | \$10,490.00         | 14,102            | (1,049)                         | 13,053           | \$5.2553       | \$68,597.43         |
| January 2004   | 1063                         | \$10.00           | \$10,630.00         | 12,558            | (1,063)                         | 11,495           | \$5.2553       | \$60,409.67         |
| February 2004  | 1050                         | \$10.00           | \$10,500.00         | 13,040            | (1,050)                         | 11,990           | \$5.2553       | \$63,011.05         |
| March 2004     | 1043                         | \$10.00           | \$10,430.00         | 8,336             | (1,043)                         | 7,293            | \$5.2553       | \$38,326.90         |
| April 2004     | 1048                         | \$10.00           | \$10,480.00         | 4,987             | (1,048)                         | 3,939            | \$5.2553       | \$20,700.63         |
| May 2004       | 1049                         | \$10.00           | \$10,490.00         | 2,171             | (1,049)                         | 1,122            | \$5.2553       | \$5,896.45          |
| June 2004      | 1035                         | \$10.00           | \$10,350.00         | 1,262             | (1,035)                         | 227              | \$5.2553       | \$1,192.95          |
| <b>TOTAL</b>   | <b>1048.25</b>               |                   | <b>\$125,790.00</b> | <b>69,683</b>     | <b>(12,579)</b>                 | <b>57,104</b>    |                | <b>\$300,098.65</b> |

**EXHIBIT 7**

**IMPACT ON AVERAGE BILL  
BY CUSTOMER CLASSIFICATION**

**Exhibit No:** 7  
**Utility:** East Kentucky Utilities, Inc.  
**Title:** Impact on Average Customer Bill

**Impact on an Average Customer Bill**

Average Annual Mcf per Customer > 1 Mcf 54.49  
 Average Monthly Mcf per Customer 4.54

| Per Mcf  | Current  | Proposed  |
|----------|----------|-----------|
| 1st Mcf  | \$6.5238 | \$10.0000 |
| >1 Mcf   | \$3.4090 | \$5.2553  |
| Gas Cost | \$7.0902 | \$7.0902  |

**Average Monthly Customer Bill Using 10 Mcf**

|                   | Current         | Proposed        | % Increase    |
|-------------------|-----------------|-----------------|---------------|
| 1st Mcf           | \$6.5238        | \$10.00         |               |
| > 1 Mcf           | \$30.6810       | \$47.2977       |               |
| Gas Cost          | \$70.9020       | \$70.9020       |               |
| <b>Total Bill</b> | <b>\$108.11</b> | <b>\$128.20</b> | <b>18.59%</b> |

**EXHIBIT 8**

**REVENUE REQUIREMENT  
DETERMINATION**

**Exhibit No: 8**  
**Utility: East Kentucky Utilities**  
**Title: Revenue Requirement Determination**

|  | <u>Amount</u>                     |
|--|-----------------------------------|
| Adjusted Operating Expenses                          | 933,485.58                        |
| 130% x Debt Service Coverage<br>(130% x \$97,558.79) | 126,826.43                        |
| Less: Depreciation                                   | (35,490.44)                       |
| Interest Expense                                     | (50,243.50)                       |
| Other Gas Revenues                                   | <u>(11,891.76)</u>                |
| Total Revenue Requirement                            | 962,686.31                        |
| Normalized Revenues                                  | <u>809,576.78</u>                 |
| Increase (Decrease) Required                         | <u><u>153,109.53</u></u> (Note 1) |

| <u>Percentage of Increase</u> |                     |
|-------------------------------|---------------------|
| Normalized Revenues           | 809,576.78          |
| Increase (Decrease) Required  | <u>153,109.53</u>   |
| As a Percentage of Increase   | <u><u>18.9%</u></u> |

Note 1: Increase amount differs from increase per Exhibit 6,  
 Billing Analysis, due to differences between "Per Books  
 Revenues" and "Calculated Revenues"

**EXHIBIT 9**  
**CURRENT CHART OF**  
**ACCOUNTS**

CHART OF ACCOUNTS  
EAST KENTUCKY UTILITIES, INC.

Asset

| ACCOUNT # | DESCRIPTION                | MEMO                          |
|-----------|----------------------------|-------------------------------|
| 131       | Cash                       |                               |
| 131-01    | Cash NEW Account           |                               |
| 131-02    | Cash on Hand               |                               |
| 142       | Customer Accounts Rec.     |                               |
| 143       | Other Receivable           |                               |
| 143-01    | Employee Advance           |                               |
| 161       | Plant & Equipment          |                               |
| 162       | Construction in Progress   |                               |
| 168       | Accum. Depreciation        |                               |
| 175       | Special Funds              |                               |
| 175-01    | Cash Bond Int & Redemption | 175-03 Bond Debt Service Fund |
| 175-02    | Floyd Cty Depn Fund        | 175-04 Debt Service Reserve   |
| 184       | Deferred Reg. Comm. Exp.   | 175-05 Depreciation Fund      |

Liability

|        |                           |                             |
|--------|---------------------------|-----------------------------|
| 221    | Bonds Payable             |                             |
| 224    | N/P DLG                   |                             |
| 231    | Notes Payable             |                             |
| 231-01 | N/P First Comm. Bank      |                             |
| 231-02 | FCB N/P                   |                             |
| 231-03 | Note Payable-Xerox Corp.  |                             |
| 231-04 | First Comm. Bank N/P      |                             |
| 231-05 | First Comm. Bank N/P      |                             |
| 231-06 | N/P First Comm. Bank      |                             |
| 231-07 | N/P FCB                   |                             |
| 231-08 | N/P FCB #084220           |                             |
| 231-09 | N/P FGNB                  |                             |
| 232    | Accounts Payable          |                             |
| 235    | Customer Deposits         |                             |
| 237    | Accrued Interest          |                             |
| 237-01 | Accrued Interest on Bonds |                             |
| 237-02 | Accrued Int. #081751      |                             |
| 237-03 | Accrued Interest Ky WVa   |                             |
| 237-04 | Accrued Interest FCB #1   |                             |
| 237-05 | Accrued Int. #083474      |                             |
| 237-06 | Accrued Interest (Vehicle |                             |
| 237-07 | Accrued Int. #083647      |                             |
| 237-08 | Accrued Interest          |                             |
| 237-10 | #084220                   |                             |
| 237-11 | #084266                   | accrued                     |
| 238    | Accrued Taxes             | 237-11 540.00               |
| 238-01 | Fica W/H                  |                             |
| 238-02 | FWT                       |                             |
| 238-03 | State Tax W/H             |                             |
| 238-04 | Employee Retirement W/H   |                             |
| 238-05 | Accrued Sales Tax         | 238.05 w/H                  |
| 238-06 | City Tax W/H              |                             |
| 238-07 | Accrued Unemployment Tax  | 238.09                      |
| 238-08 | Accrued Retirement        |                             |
| 265    | Operating Reserves        |                             |
| 265-01 | Bond Depreciation Reserve | 265-03 Debt Service Reserve |
| 265-02 | Sinking Fund Reserve      | 265-04 Depreciation Reserve |
| 10-01  | Xerox lease 36 mo @ 88.00 |                             |

CHART OF ACCOUNTS  
EAST KENTUCKY UTILITIES, INC.

Page 3  
Dec 31, 1990

ase

| ACCOUNT # | DESCRIPTION                      | MEMO                                 |
|-----------|----------------------------------|--------------------------------------|
| 926       | Employee Benefits                |                                      |
| 926-01    | Retirement                       |                                      |
| 926-02    | Employees Insurance <i>OCBS</i>  |                                      |
| 928       | Regulatory Comm Expenses         |                                      |
| 930       | Miscellaneous Gen Expense        |                                      |
| 930-01    | Directors Fees                   |                                      |
| 931       | Rents                            |                                      |
| 933       | Transportation Expenses          |                                      |
| 933-01    | Gasoline - <i>gas for trucks</i> |                                      |
| 933-02    | Repairs                          |                                      |
| 981       | Interest Expense                 |                                      |
| 981-01    | Interst Expense - Bonds          |                                      |
| 981-02    | Int Expense Meter Deposit        |                                      |
| 981-03    | Int Exp #082756                  |                                      |
| 981-04    | Int Exp #083474                  |                                      |
| 981-05    | Int Exp-KY WVa Gas Co            |                                      |
| 981-06    | Interest Expense - Xerox         |                                      |
| 981-07    | Int Exp-Auto #083507             |                                      |
| 981-08    | Int Exp #081751                  |                                      |
| 981-09    | Int Exp #083647                  |                                      |
| 981-10    | #084220                          |                                      |
| 981-11    | #084266                          |                                      |
| 981-12    | Int Exp - FGND                   | <i>Interest</i><br><i>981-13 DLG</i> |
| 983       | Depreciation Expense             |                                      |
| 987       | Interest on Long Term Deb        |                                      |
| 988       | Payroll & Other Taxes            |                                      |
| 988-01    | Payroll Taxes                    |                                      |
| 988-02    | Public Svc Co Franchise          |                                      |
| 988-03    | Public Svc Comm Assessme         |                                      |

| ACCT #  | DESCRIPTION                  | MEMO             |
|---------|------------------------------|------------------|
| 301     | Contributed Capital          |                  |
| 318     | Retained Earnings            |                  |
| 319     | Dividends Paid               |                  |
| 320     | Current Earnings             |                  |
| 321     | Sub-account transfer         |                  |
| 321-01  | Retained Earnings            |                  |
| 321-02  | Transfer to Depr Fund        |                  |
| 321-03  | Transfer From Depr Fund      |                  |
| Revenue |                              |                  |
| 480     | Gas Sales                    |                  |
| 480-01  | Residential                  |                  |
| 480-02  | Commercial                   |                  |
| 487     | Penalties                    |                  |
| 488     | Service Charge               |                  |
| 488-01  | Bank Service Charges         |                  |
| 491     | Interest Income              |                  |
| 491-01  | Int Income NOW Account       |                  |
| 491-02  | Bond Depr. Res. Int.         |                  |
| 491-03  | Int Inc Rev Bond & Int       |                  |
| 491-04  | Int Inc Escrow Account       |                  |
| 496     | Other Income                 |                  |
| Expense |                              |                  |
| 730     | Gas Purchases                |                  |
| 730-01  | ERC Gas Purchases Ky WVA Gas | ERC 730-01 804.1 |
| 730-02  | Gas Purchases St. Gas Co     | 730-02 804.2     |
| 751     | Mains & Services Labor       | 736 813          |
| 751-01  | Mains & Service Ret Wages    |                  |
| 751-02  | Wages Overtime               |                  |
| 762     | Services Supplies & Exp      |                  |
| 765     | Freight                      |                  |
| 767     | Maintenance of Lines         |                  |
| 768     | Maintenance of Meters        |                  |
| 901     | Meter Reading Labor          |                  |
| 902     | Accounting & Coll. Labor     |                  |
| 903     | Accounts Supplies & Exp      |                  |
| 903-01  | Computer Billing             |                  |
| 903-02  | Computer Supplies            |                  |
| 904     | Uncollectable Accounts       |                  |
| 920     | Admin & General Salaries     |                  |
| 920-01  | Admin & Gen Ret Wages        |                  |
| 921     | Office Supplies & Exp        |                  |
| 921-01  | Telephone                    |                  |
| 921-02  | Utilities                    |                  |
| 921-03  | Postage                      |                  |
| 921-04  | Bank Charges                 |                  |
| 923     | Outside Services Employed    |                  |
| 923-01  | Accounting                   |                  |
| 923-02  | Legal                        |                  |
| 923-03  | Drug Testing                 |                  |
| 924     | Insurance                    |                  |
| 925     | Injuries and Damages         |                  |

**EXHIBIT 10**

**CUSTOMER NOTIFICATION**

**East Kentucky Utilities, Inc.**

**NOTICE**

Notice is hereby given that East Kentucky Utilities, Inc is seeking approval by the Kentucky Public Service Commission, Frankfort, Kentucky, for an adjustment of rates to become effective on or after 02/08/2005, in the total amount of \$153,110 on an annual basis. The proposed rates reflect an increase in revenues of approximately 18.9 percent to East Kentucky Utilities, Inc. The proposed amount of increase per customer is as follows:

|                   | <u>Existing</u> | <u>Proposed</u> | <u>Dollar Amt.<br/>of Increase</u> | <u>Percentage<br/>Increase</u> |
|-------------------|-----------------|-----------------|------------------------------------|--------------------------------|
| Minimum Bill      | \$13.6140       | \$17.0902       | \$3.4762                           | 25.53%                         |
| Base Rate per Mcf | \$10.4992       | \$12.3455       | \$1.8463                           | 17.59%                         |

The rates contained in this notice are the rates proposed by East Kentucky Utilities, Inc. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic or person may request leave to intervene by motion within thirty (30) days after notice of the proposed rate changes is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky, 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant.

Copies of the application may be obtained at no charge from East Kentucky Utilities, Inc., P.O. Box 408, Prestonsburg, KY 41653. Upon request from an intervenor, the applicant shall furnish to the intervenor a copy of the application and supporting documents.

**EXHIBIT 11**  
**2003 AUDITED**  
**FINANCIAL STATEMENTS**

REPORT OF THE AUDIT EXAMINATION  
OF  
FLOYD COUNTY WATER AND GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC  
For the Year Ended December 31, 2003

**Lawton Ray Allen**  
*Certified Public Accountant*  
156 Sizemore Road  
Minnie, Kentucky 41651

(606) 377-0683 • Fax (606) 377-0843

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**LAWTON RAY ALLEN  
CERTIFIED PUBLIC ACCOUNTANT  
156 SIZEMORE ROAD  
MINNIE, KENTUCKY**

-----  
**TELEPHONE (606) 377-0683**

August 22, 2004

**Board of Directors  
Floyd County Gas System  
East Kentucky Utilities, Inc.  
Prestonsburg, Kentucky 41653**

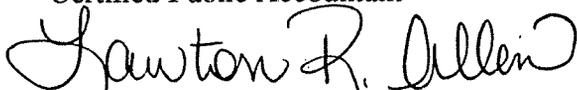
I have audited the accompanying balance Sheet of the Floyd County Water and Gas System and East Kentucky Utilities, Inc. as of December 31, 2003 and the related statement of income and cash flows for the twelve month period then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the accompanying balance sheet and statement of income and cash flows present fairly the financial position of Floyd County Gas System and East Kentucky Utilities, Inc. as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

Lawton Ray Allen  
Certified Public Accountant



EKU951.WPS

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
BALANCE SHEET  
DECEMBER 31, 2003**

**ASSETS**

**Current Assets**

|                             |  |                |
|-----------------------------|--|----------------|
| Cash                        |  | \$ 37,893      |
| Accounts Receivable - Trade |  | <u>162,525</u> |
| <b>Total Current Assets</b> |  | <b>200,418</b> |

**Plant and Equipment**

|                                |                |                |
|--------------------------------|----------------|----------------|
| Plant and Equipment            | \$1,343,222    |                |
| Less: Accumulated Depreciation | <u>984,564</u> |                |
| <b>Net Plant and Equipment</b> |                | <b>358,658</b> |

**Other Assets**

|                                 |               |                |
|---------------------------------|---------------|----------------|
| CIB - Debt Service Fund         | 21,529        |                |
| CIB - Debt Service Reserve Fund | 91,284        |                |
| Unamortized Debt Expense        | <u>16,778</u> |                |
| <b>Total Other Assets</b>       |               | <b>129,591</b> |

**TOTAL ASSETS**

**\$688,667**

**LIABILITIES AND FUND BALANCE**

**Current Liabilities**

|                                  |  |                |
|----------------------------------|--|----------------|
| Accounts Payable                 |  | \$ 276,342     |
| Accrued Taxes                    |  | 3,811          |
| Accrued Interest                 |  | 24,548         |
| Contract Payable                 |  | 32,096         |
| Current Bonds Payable            |  | <u>37,676</u>  |
| <b>Total Current Liabilities</b> |  | <b>374,473</b> |

**Other Liabilities**

|                   |  |        |
|-------------------|--|--------|
| Customer Deposits |  | 46,653 |
|-------------------|--|--------|

**Long-Term Liabilities**

|               |  |                |
|---------------|--|----------------|
| Bonds Payable |  | <u>639,403</u> |
|---------------|--|----------------|

**TOTAL LIABILITIES**

**1,060,529**

**Fund Balance**

|                                       |                |                  |
|---------------------------------------|----------------|------------------|
| Unrestricted - Deficit                | (753,147)      |                  |
| Contribution in Aid of Construction   | 268,472        |                  |
| Restricted Funds                      | <u>112,813</u> |                  |
| <b>Total Fund Balance - (Deficit)</b> |                | <b>(371,862)</b> |

**TOTAL LIABILITIES AND FUND BALANCE**

**\$688,667**

The notes to the financial statements are an integral part of this statement

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**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
INCOME STATEMENT  
For the Year Ended December 31, 2003**

**REVENUES**

|                       |                |
|-----------------------|----------------|
| Gas Sales             | \$850,408      |
| Penalties             | 6,382          |
| Service Charge        | 290            |
| Interest Income       | <u>907</u>     |
| <b>TOTAL REVENUES</b> | <b>857,987</b> |

**OPERATING EXPENSES**

|                                     |               |
|-------------------------------------|---------------|
| Gas Purchases                       | \$590,785     |
| Mains and Service Labor             | 87,426        |
| Service Supplies and Expenses       | 1,638         |
| Administrative and General Salaries | 56,750        |
| Office Supplies and Expenses        | 19,237        |
| Outside Services Employed           | 12,138        |
| Insurance                           | 10,533        |
| Employee Benefits                   | 30,824        |
| Miscellaneous General Expenses      | 396           |
| Rents                               | 15,898        |
| Transportation Expenses             | 12,940        |
| Depreciation Expense                | 35,490        |
| Payroll and Other Taxes             | 13,189        |
| Amortization of Bond Expense        | 2,165         |
| Accounting and Collection Labor     | 26,825        |
| Bad Debts                           | 4,157         |
| Maintenance of Lines                | <u>23,594</u> |

**TOTAL OPERATING EXPENSES** 943,985

Profit (Loss) From Operation (85,998)

Non Operating Expense

Interest 37,521

**NET PROFIT (LOSS)** (\$ 123,519)

The notes to the financial statements are an integral part of this statement.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
UNRESTRICTED FUND BALANCE  
December 31, 2003**

|  |                    |
|--|--------------------|
| Unappropriated Fund Balance (Deficit) at January 1, 2003   | (\$604,578)        |
| Deduct: Net loss for the year ended December 31, 2003      | (123,519)          |
| Less: Net reserve fund transfers                           | <u>(25,050)</u>    |
| Unappropriated Fund Balance (Deficit) at December 31, 2003 | <u>(\$753,147)</u> |

The notes to the financial statements are an integral part of this statement.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2003  
Increase (Decrease) in Cash and Cash Equivalents**

|  |                        |                         |
|--|------------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                        |                         |
| Net Profit (Loss)  |                        | \$ (123,519)            |
| <b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                        |                         |
| Depreciation and Amortization  | \$37,655               |                         |
| <b>CHANGES IN ASSETS AND LIABILITIES:</b>  |                        |                         |
| Increase in Accounts Receivable  | (26,559)               |                         |
| Increase in Accounts Payable and Accrued Expenses  | 75,858                 |                         |
| Decrease in Interest Payable   | (1,230)                |                         |
| Decrease in Other Liabilities  | (8,221)                |                         |
| Decrease in contract payable   | <u>(16,746)</u>        |                         |
| <b>TOTAL ADJUSTMENTS</b>   |                        | <u><b>60,757</b></u>    |
| <b>NET USED BY OPERATING ACTIVITIES</b>  |                        | <b>(62,762)</b>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                        |                         |
| Bonds Retired  | (41,765)               |                         |
| <b>NET CASH USED BY FINANCING ACTIVITIES</b>   |                        | <u><b>(41,765)</b></u>  |
| Net Decrease in Cash and Cash Equivalents  |                        | <u>(104,527)</u>        |
| Cash and Cash Equivalents at Beginning of Year   |                        | <u>255,233</u>          |
| <b>Cash and Cash Equivalents at End of Year</b>  |                        | <u><b>\$150,706</b></u> |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                 |                        |                         |
| Cash Paid During the Year for:   |                        |                         |
| Interest   | <u><b>\$37,521</b></u> |                         |

**Disclosure of Accounting Policy:**

For purposes of the statement of cash flows, the Company considers the cash in bank of the operating account, Bond Sinking Fund, Debt Service Reserve Fund and Bond Depreciation Fund as cash equivalents.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003**

**Note 1:** The financial statements of East Kentucky Utilities are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when they are incurred.

**Note 2:** Floyd County Gas System is the sole owner of a natural gas distribution system located in Floyd County, Kentucky. It has leased the system to East Kentucky Utilities, Inc., a non-profit corporation organized under and pursuant to Chapter 273.161 through 273.390 of Kentucky revised statutes. The lease amount is directly related to the amortization of the bonds. Even though the two entities are separate, they are considered as one entity by the Public Service commission which is the governing body for all public utilities except municipalities in the State of Kentucky. We felt the financial statements of both entities need to be combined to fairly present the financial position of the system to the holders of the Revenue Bonds.

**Note 3:** Plant and equipment is valued at cost. The original cost and accumulated depreciation was based on the book value of the predecessor corporation, Ohio-Kentucky Utilities, as was agreed when the Refunding Revenue Bonds were issued by Floyd County Fiscal Court.

**Note 4:** In September 1999, the Floyd County Fiscal Court issued Refunding Revenue bonds, Series A of 1999 in the face amount of \$585,000 and Refunding Revenue bonds, Series B, in the amount of \$288,774.96. The proceeds of these bond issues were used to retire the June 1, 1979 Bond Issue and various loans from the First Commonwealth Bank and the First Guaranty Bank.

The bond and interest payments of the Series A & B Bonds on which our lease payments are based are shown below:

| <u>Series A Bonds</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|------------------|-----------------|--------------|
| 2004                  | 40,000           | 18,816          | 56,816       |
| 2005                  | 40,000           | 17,076          | 57,076       |
| 2006                  | 40,000           | 15,336          | 55,336       |
| 2007                  | 40,000           | 13,596          | 53,596       |
| 2008                  | 45,000           | 11,747          | 56,747       |
| 2009 thru 2013        | 245,000          | 27,384          | 272,384      |

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**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

| <u>Series B Bonds</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|------------------|-----------------|--------------|
| 2004                  | 8,172            | 14,206          | 22,378       |
| 2005                  | 8,703            | 13,675          | 22,378       |
| 2006                  | 9,269            | 13,109          | 22,378       |
| 2007                  | 9,871            | 12,507          | 22,378       |
| 2008                  | 10,513           | 11,865          | 22,378       |
| 2009                  | 11,196           | 11,182          | 22,378       |
| 2010 thru 2014        | 52,704           | 59,186          | 111,890      |
| 2015 thru 2019        | 92,950           | 18,940          | 111,890      |

**NOTE 5:** During the year ended December 31, 2002 the depreciation fund was depleted, no transfers were made to this fund.

**NOTE 6:** Cash includes amounts in bank account.

Kentucky revised statute 66.480 authorizes the Floyd County Gas System, DBA East Kentucky Utilities, Inc., to invest in obligations of the U.S. Treasury: in bonds or certificates of indebtedness of this state and to its agencies; savings and loan associations insured by an agency of the government of the United States up to the amount so insured; interest bearing deposits in state or national banks chartered in Kentucky and insured by an agency of the United States up to the amount so insured, and in larger amounts providing the bank pledges security obligations equal to an amount equal to the uninsured amounts.

**NOTE 7:** Reserved Fund Balances

Fund balances are reserved to separate a portion of fund equity for a specific future use.

**NOTE 8:** The Floyd County Gas System, DBA East Kentucky Utilities, Inc., maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of December 31, 2003, the bank balances were fully insured or collateralized with securities held by the Floyd County Gas System, DBA East Kentucky Utilities, Inc.'s agent in the company's name.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 9:** East Kentucky Utilities, Inc. is a participating employer of the County Employees' Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of each county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate, however, all subsequent employees must participate and the employer is required to continue participation.

Employees who retire at age 65 and have 48 or more months of credited service or have 27 years of credited service regardless of age are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of the average annual salary of the members' five highest earning years multiplied by the number of years of service credit. Members retiring at less than 55 years of age with 25 to 27 years of service credit or 65 years of age with less than 48 months of service credit are entitled to reduced benefit. Member's retirement benefits become fully vested when they complete sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contribution with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter.

East Kentucky Utilities, Inc has a total of 7 employees covered by the CERS. Employer contribution rates are intended to fund the System's normal cost on a current basis. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The employees contributed 5.00%, and the employer contributed 7.34%. East Ky. Utilities, Inc.'s contribution for the year ended June 30, 2003, was \$9,148 and the employees contributed \$10,401. The current year contribution was calculated based on covered payroll of \$149,778.

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the system.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 9:** Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter.

All required contributions were paid at year end or within (30) days thereafter. The percentage of the Board's contribution to total employer's contributions in the CERS for the year is not known.

The CERS total actuarial accrued liability was \$4,900,142,654 and the net assets available for the benefits was \$6,910,500,565 as of June 30, 2001, which is the latest information available. Ten-year historical trend information showing assets available to pay benefits when due is presented in the System's June 30, 2001 comprehensive annual report.

**NOTE 10:** East Kentucky Utilities, Inc. is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the company also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**FLOYD COUNTY GAS SYSTEM  
EAST KENTUCKY UTILITIES, INC  
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Floyd County Gas System  
East Kentucky Utilities, Inc  
Prestonsburg, Ky. 41853

I have audited the general purpose financial statements of the East Kentucky Utilities, Inc as of and for the year ended December 31, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the East Kentucky Utilities, Inc's general purpose financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered East Kentucky Utilities, Inc's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relations to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lawton Ray Allen CPA  
Minnie, KY.  
August 22, 2004

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